

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 2905 – SB 2859

February 1, 2012

SUMMARY OF BILL: Repeals the Hall Income Tax codified in Title 67, Chapter 2.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact –
\$62,456,000/FY12-13
\$124,912,000/FY13-14 and Subsequent Years

Decrease State Expenditures - \$709,600/FY13-14 and Subsequent Years

Decrease Local Revenue – Net Impact –
\$38,099,400/FY12-13
\$76,198,900/FY13-14 and Subsequent Years

Other Fiscal Impact - Secondary economic impacts may occur as a result of this bill. Such impacts may be realized due to changes in population or as a result of other behavioral changes prompted by passage of this bill. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

Assumptions:

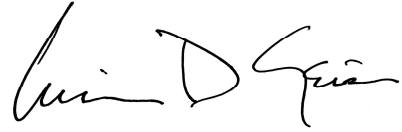
- The current Fiscal Review Committee estimate for Hall Income Tax collections for FY12-13 is estimated to be \$211,140,000. This number is assumed to remain constant in subsequent years under current law.
- An effective date of January 1, 2013; therefore, any Hall Income Tax owed for tax year 2012 is assumed to be remitted and collected by the state.
- The decrease in Hall Income Tax revenue for FY12-13 is estimated to be 50 percent of collections estimated for FY12-13 under current law due to the effective date assumption. Therefore, the decrease in Hall Income Tax revenue for FY12-13 is estimated to be \$105,570,000 (\$211,140,000 x 50.0%). The recurring decrease in Hall Income Tax revenue for FY13-14 and subsequent years is estimated to be \$211,140,000.
- Pursuant to Tenn. Code Ann. § 67-2-119(a), the state retains 62.5 percent of Hall Income Tax revenue; local governments are apportioned 37.5 percent.
- Local governments are not held harmless from the loss of Hall Income tax revenue.

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- Fifty percent of tax savings is spent in the economy on other sales-taxable goods and services.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- The increase in state sales tax revenue for FY12-13 is estimated to be \$3,694,950 $(\$105,570,000 \times 50.0\% \times 7.0\%)$; for FY13-14 and subsequent years is estimated to be \$7,389,900 $(\$211,140,000 \times 50.0\% \times 7.0\%)$.
- The increase in local option sales tax revenue for FY12-13 is estimated to be \$1,319,625 $(\$105,570,000 \times 50.0\% \times 2.5\%)$; for FY13-14 and subsequent years is estimated to be \$2,639,250 $(\$211,140,000 \times 50.0\% \times 2.5\%)$.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of all state sales tax revenue as state-shared sales tax revenue.
- The increase in local revenue pursuant to the state-shared allocation for FY12-13 is estimated to be \$169,691 $(\$3,694,950 \times 4.5925\%)$; for FY13-14 and subsequent years is estimated to be \$339,381 $(\$7,389,900 \times 4.5925\%)$.
- The net decrease in state revenue for FY12-13 is estimated to be \$62,455,991 $[(\$105,570,000 \times 62.5\%) - (\$3,694,950 - \$169,691)]$; for FY13-14 and subsequent years is estimated to be \$124,911,981 $[(\$211,140,000 \times 62.5\%) - (\$7,389,900 - \$339,381)]$.
- The net decrease in local revenue for FY12-13 is estimated to be \$38,099,434 $[(\$105,570,000 \times 37.5\%) - (\$1,319,625 + \$169,691)]$; for FY13-14 and subsequent years is estimated to be \$76,198,869 $[(\$211,140,000 \times 37.5\%) - (\$2,639,250 + \$339,381)]$.
- The Department of Revenue (DOR) will be able to eliminate 17 positions (10 from the Processing Division and 7 from the Audit Division) in FY13-14 as a result of no longer being required to administer and collect the Hall Income Tax. Based on information provided by DOR, the total recurring decrease in state expenditures is estimated to be \$709,600 (\$392,400 for the 10 Processing Division positions and \$317,200 for the 7 Audit Division positions).
- There could be subsequent increases in state and local government revenue and expenditures due to secondary economic impacts prompted by passage of this bill. Increases in revenue may occur if the state's population increases as a result of a reduced tax liability. Increases in expenditures may occur if the demand for governmental programs and infrastructure increase as a result of population increases. Due to multiple unknown factors such as the extent and timing of population changes, the fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "Lucian D. Geise". The signature is fluid and cursive, with the first name "Lucian" written in a larger, more prominent script than the last name "Geise".

Lucian D. Geise, Executive Director

/rnc